

11 May 2004

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Dear Sirs

## Independent Expert's Report – Cancellation of Listed Options and Acquisition of People Telecom Ltd

### 1 Introduction

#### 1.1 Purpose

At your request, PKF Corporate Advisory Services (WA) Pty Ltd ("PKF Corporate Advisory") has prepared an Independent Expert's Report ("the Report" or "IER") for Swiftel Limited ("Swiftel" or "the Company") in relation to the proposed issue of shares to the listed option holders of the Company and the shareholders of People Telecom Ltd ("People Telecom"). This report is to accompany a Notice of General Meeting ("NGM") and an Explanatory Memorandum ("EM") to be distributed to shareholders of Swiftel.

Swiftel is required under Section 611 of the Corporations Act 2001 and Chapters' 7 and 10 of the Australian Stock Exchange ("ASX") Listing Rules to obtain shareholders' approval for the issue of shares in consideration for cancelling listed options ("Options Offer Transaction") **and** the proposed acquisition of shares in People Telecom Limited ("People Telecom Transaction"), also collectively referred to as "the Transaction" throughout this Report.

This Report has been prepared pursuant to the requirements of the Corporations Act 2001, specifically Section 611 (Item 7), dealing with the approval of an allotment of shares otherwise prohibited by Section 606, approved by a resolution passed at a general meeting at which no votes are cast by persons associated with the Transaction.

Swiftel is required under Chapter 7 of the Australian Stock Exchange Listing Rules to obtain shareholders' approval for the proposed issue of shares that would exceed 15% of its existing capital. Swiftel is also required to comply with Chapter 10 of the ASX Listing Rules which deals with the acquisition of a substantial asset from a related party.

We understand that the Report will be distributed to Swiftel shareholders together with the NGM and EM setting out the details of the Transactions in order to assist non-associated shareholders, in voting at the Swiftel General Meeting scheduled for 14 June 2004.

## **1.2 Scope**

The Australian Securities and Investments Commission ("ASIC") Policy Statements 74 and 75 as well as Practice Note 42 set out matters to be considered in independent expert's reports to non-associated shareholders.

The scope of the IER has been based on ASIC Policy Statement 74 "Acquisitions Agreed to by Shareholders". We have also considered ASIC Policy Statement 75 "Independent Expert Reports to Shareholders" and Practice Note 42 "Independence of Experts' Reports" as a guide to preparing our IER.

Based on the requirements of ASIC Policy Statement 74, our Report compares the offer consideration and the value of assets under offer, as well as other factors including the likely advantages and disadvantages of the Transaction to the non-associated shareholders of Swiftel. This will form the basis of our opinion as to whether or not the proposed Transaction is fair and reasonable to the non-associated shareholders of Swiftel.

## **1.3 Summary of our Considerations**

### **1.3.1 Options Offer Transaction**

In forming our opinion as to whether the issue of Swiftel shares to Swiftel listed option holders under the Options Offer Transaction is fair and reasonable to the non-associated shareholders of Swiftel, we have considered the following key issues:

- The relative value of the Swiftel shares offered under the Options Offer Transaction and the listed options to be cancelled; and
- The likely implications to Swiftel if the Options Offer Transaction does not proceed.

### **1.3.2 People Telecom Transaction**

In forming our opinion as to whether the issue of Swiftel shares to People Telecom shareholders under the People Telecom Transaction is fair and reasonable to the non-associated shareholders of Swiftel, we have considered the following key issues:

- The relative value of the Swiftel shares offered under the People Telecom Transaction and the People Telecom shares to be acquired;

- The strategic rationale for the proposed Transaction and the expected impact of the People Telecom Transaction on Swiftel's strategic, financial and operating position;
- The synergies that Swiftel expects to realise from the proposed Transaction, and other flow-on effects of the proposed Transaction;
- The extent of any premium for control being received by Swiftel; and
- The possible alternatives available to Swiftel if the Transaction does not proceed.

Whilst we have been able to arrive at a valuation for Swiftel, the **number** of Swiftel shares to be issued under the People Telecom Transaction is influenced by the number of Swiftel shares to be issued under the Options Offer Transaction. Similarly, the **value** of the Swiftel shares to be issued under the People Telecom Transaction is also influenced by the number of Swiftel shares to be issued under the Options Offer Transaction.

It has been more difficult to assess the value of the People Telecom shares, which represent the consideration for the Swiftel shares being issued. In this circumstance we have also considered comparable transaction data, where available, to assist us in assessing the fairness of the offer consideration (Swiftel shares) when compared with the value of the assets under offer (People Telecom shares).

## 1.4 Our Opinion

### 1.4.1 Options Offer Transaction

**In view of all our considerations, we are of the opinion that the Options Offer Transaction on the whole is considered to be fair and reasonable to the shareholders of Swiftel.**

We consider that the benefits of the Options Offer Transaction outweigh the disadvantages of the Options Offer Transaction. The major matters, which deal with the advantages and disadvantages of the Options Offer Transaction are set out below.

- Under the terms of the Options Offer Transaction, Swiftel will issue between 9.48 million and 19.33 million shares to the listed option holders at a notional price of \$0.20 per share on a post-consolidation basis.
- The Market Approach was used as the basis for valuing the shares and listed options of Swiftel using the 6 month weighted average share and option price;
- The value of the consideration being paid by Swiftel for the acquisition of the Swiftel listed options under the Options Offer Transaction is represented by the value of the shares to be issued and is between \$2.05 million and \$3.76 million, which is less than the range of values of the listed options of Swiftel being cancelled of between \$2.05 million and \$4.18 million. To summarise, the offer consideration appears to be at least equal to or less than the value of the assets under offer.

- If the Options Offer Transaction does not proceed, we understand that the People Telecom Transaction will also not proceed. Our opinion on the People Telecom Transaction is outlined in 1.4.2 below and detailed elsewhere in this report and is considered to be fair and reasonable to the shareholders of Swiftel. Accordingly, should the Options Offer Transaction not proceed, Swiftel will not be able to access the potential benefits arising from the People Telecom Transaction.
- We believe that the acquisition of People Telecom will strengthen Swiftel's business going forward, providing diversification and potential increased market share. Should this not occur, Swiftel will need to consider alternative strategies to both pursue and fund growth and diversification. We are not aware of any alternatives currently available to Swiftel.

#### **1.4.2 People Telecom Transaction**

**In view of all our considerations, we are of the opinion that the People Telecom Transaction on the whole is considered to be fair and reasonable to the shareholders of Swiftel.**

We consider that the benefits of the People Telecom Transaction outweigh the disadvantages of the People Telecom Transaction. The major matters, which deal with the advantages and disadvantages of the Transaction are set out below.

- Swiftel is still in a formative stage of its business development, particularly with its high volume DSL product. Swiftel has previously made losses, however the company is rapidly approaching break even and an improving outlook for 2005. The short-term outlook for significant growth for the Company will however continue to be limited by virtue of its current size and narrow product offering, relative to other market participants.
- People Telecom is currently in a profit making position, with forecast results for 2004 showing a full year profit. The Directors have also forecast a stronger result in 2005 with growth in revenue and margins driving both increased profitability and cashflow. Relative to Swiftel, People Telecom is a more mature business experiencing consistent growth in a largely commercial customer base.
- The combination of the two businesses will provide the opportunity for synergistic benefits whereby Swiftel's largely data-based products and People Telecom's largely voice-based products should provide cross-selling opportunities that will yield additional revenue with relatively low marginal operating costs.
- The combination of the two businesses will also provide the opportunity to leverage greater whole of business discounts to the merged entity from the major suppliers. Significantly for Swiftel, these discounts are currently not available to Swiftel based on its current level of activity.
- In addition, the cashflow generated by the People Telecom business will be available to assist the earlier-stage profile of the Swiftel business. This will assist in funding

the growth of the Swiftel business and may remove the need to raise additional external funding.

- Whilst no forecasts have been prepared for the merged group, based on the information we have been provided with, the Transaction should not result in any negative earnings per share impact for Swiftel shareholders compared to the EPS level if the Transaction were not to proceed.
- The voice-based fixed line and mobile business of People Telecom also provides diversification for Swiftel away from its largely data-based ADSL ISP business.
- The result of the proposed Transaction should provide the merged business with additional scale and diversity and will rate the business in the top 10 market participants in this sector in Australia. This development should also assist the merged business to take advantage of likely future industry consolidation opportunities and also make the Company more attractive to the investment community if it is able to continue to deliver profitable growth in sales across a wider product range.
- Under the terms of the People Telecom Transaction, Swiftel will issue between 194.75 million and 204.31 million shares to the shareholders of People Telecom at a notional price of \$0.20 per share on a post-consolidation basis.
- Assuming minimum acceptance of the Options Offer Transaction, following the issue of shares as consideration for the acquisition of 100% of People Telecom under the People Telecom Transaction, the maximum potential dilution on the shareholdings of existing Swiftel shareholders is a reduction to 30.7% of existing shareholdings.
- However should there be 100% acceptance of the Options Offer Transaction, following the issue of shares as consideration for the acquisition of 100% of People Telecom under the People Telecom Transaction, the maximum potential dilution on the shareholdings of existing Swiftel shareholders is a reduction to 34.0% of existing shareholdings.
- Of course, the actual level of acceptance will fall somewhere between these two extremes, resulting in a potential dilution on the shareholdings of existing Swiftel shareholders to between 30.7% and 34.0% of existing shareholdings.
- On a fully diluted basis, following the exercise of all outstanding options (both listed and unlisted), existing Swiftel shareholders will hold between 35.0% and 36.0% of the issued capital of the Company.
- The Market Approach was used as the basis for valuing the shares of Swiftel using the 6 month weighted average share price or closing price on 16 April 2004.
- The value of the consideration being paid by Swiftel for the acquisition of People Telecom under the People Telecom Transaction is represented by the value of the shares to be issued and is between \$37.72 million and \$43.91 million.

- The Earnings Approach was used as a basis for valuing the shares of People Telecom using a price earnings multiple and is between \$31.5 million and \$40.5 million with a preferred mid-point of \$36 million.
- The value of the consideration being paid for People Telecom exceeds the value of the assets being acquired by between \$3.4 million and \$6.2 million.
- Following the Transaction, the net asset value per share of Swiftel based on its proforma statement of financial position as at 31 December 2003 is anticipated to increase from 4.63 cents to 13.07 cents per share.
- The Swiftel Directors have reviewed and conducted research into numerous investment proposals and are of the opinion that the proposed merger with People Telecom meet the board's criteria and represents a significant opportunity to create value for all Swiftel shareholders.
- The acquisition of People Telecom will strengthen Swiftel's business going forward providing increased diversification and potential increased market share.
- There are significant risks inherent in achieving success from the merger, which may not suit the desired risk profile of the existing shareholders of Swiftel.

## 2 Background

### 2.1 Swiftel

Swiftel was founded as a mineral explorer and until May 2000 was known as Roebuck Resources NL. On 22 May 2000 the Company acquired Swiftel Communications Pty Ltd ("Swiftel Communications"), which was the holder of a carrier licence under the Australian Telecommunications Act. The board of Swiftel subsequently sold the mineral assets to a wholly owned subsidiary Platinum Australia Limited, which was floated and listed on the ASX in its own right in October 2000.

Swiftel now operates in the Australian telecommunications sector and is the parent entity of Swiftel Communications, the operating entity of its telecommunications business.

Swiftel Communications was established to provide high quality, high capacity and cost-effective data, video and internet services to corporate and government clients initially in the Perth CBD and key WA rural centres and later in other national and international markets. A presence has now been established in other Australian regions with offices open in Queensland, New South Wales and Victoria.

Swiftel Communication's fibre optic network is a state of the art telecommunications network encompassing fibre optic cabling and modern switching technology to support the transport requirements of technologies such as Internet Protocol ("IP") and other leading edge services.

Swiftel Technologies Pty Ltd ("Swiftel Technologies") provides DSL services, having developed a network in all mainland capital cities except for Canberra through an agreement with Telstra signed in October 2000 allowing access to Telstra's copper and fibre networks. Usage of this network has rapidly expanded since commencing in February 2003 in Sydney and now includes over 15,000 customers across Australia.

On 12 March 2004, Swiftel announced that it had entered into a heads of agreement with People Telecom, under which Swiftel is to acquire all of the issued shares in People Telecom. In consideration for the acquisition of all of the fully paid ordinary shares in the capital of People Telecom, Swiftel will issue the shareholders in People Telecom fully paid ordinary shares in the capital of Swiftel calculated in accordance with a predetermined formula.

## 2.1.1 Swiftel Financials

Set out below are the audited statements of Financial Performance, Financial Position and Cashflows for Swiftel for the year ended 30 June 2003 and the reviewed statements for the half-year ended 31 December 2003.

| Statement of Financial Performance | Swiftel Limited                    |   |
|------------------------------------|------------------------------------|---|
|                                    | Audited Year ended<br>30 June 2003 | Reviewed Half Year<br>ended 31 December<br>2003 |
|                                    | \$000                              | \$000   |
| Sales                              | 3,964                              | 5,805   |
| Cost of sales                      | (2,089)                            | (4,498)   |
| <b>Gross profit</b>                | <b>1,875</b>                       | <b>1,307</b>                                    |
| Other expenses                     | (4,662)                            | (2,109)   |
| <b>EBITDA</b>                      | <b>(2,787)</b>                     | <b>(802)</b>                                    |
| Depreciation & amortisation        | (613)                              | (369)   |
| <b>EBIT</b>                        | <b>(3,400)</b>                     | <b>(1,171)</b>                                  |
| Net interest                       | (72)                               | (41)  |
| <b>Profit before tax</b>           | <b>(3,472)</b>                     | <b>(1,212)</b>                                  |
| Tax charge                         | -                                  | -   |
| <b>Net Profit after tax</b>        | <b>(3,472)</b>                     | <b>(1,212)</b>                                  |

| Statement of Financial Position | Swiftel Limited                    |   |
|---------------------------------|------------------------------------|---|
|                                 | Audited Year ended<br>30 June 2003 | Reviewed Half Year<br>ended 31 December<br>2003 |
|                                 | \$000                              | \$000   |
| Current Assets                  | 1,507                              | 4,692   |
| Non Current Assets              | 3,377                              | 3,827   |
| <b>TOTAL ASSETS</b>             | <b>4,884</b>                       | <b>8,519</b>                                    |
| Current Liabilities             | 2,587                              | 4,501   |
| Non Current Liabilities         | 328                                | 270   |
| <b>TOTAL LIABILITIES</b>        | <b>2,915</b>                       | <b>4,771</b>                                    |
| <b>NET ASSETS</b>               | <b>1,969</b>                       | <b>3,748</b>                                    |
| <b>Equity</b>                   |                                    |   |
| Contributed Equity              | 17,344                             | 20,335  |
| Reserves                        | 814                                | 815   |
| Accumulated losses              | (16,189)                           | (17,402)  |
| <b>TOTAL EQUITY</b>             | <b>1,969</b>                       | <b>3,748</b>                                    |

| <b>Cashflow Statement</b>                                  | <b>Swiftel Limited</b>                               |  |
|--|--|--|
|  | <b>Audited Year ended<br/>30 June 2003<br/>\$000</b> | <b>Reviewed Half Year<br/>ended 31 December<br/>2003<br/>\$000</b> |
| <b>Cash flows from operating activities</b>                |  |  |
| Cash receipts in the course of operations                  | 3,552  | 5,151  |
| Cash payments in the course of operations                  | (4,338)  | (4,982)  |
| Interest received  | 22   | 11   |
| Interest and borrowing costs paid                          | (95)   | (51)   |
| GST paid/(received)  | (34)   | 25   |
| <b>Net cash provided by/(used in) operating activities</b> | <b>(893)</b>   | <b>154</b>   |
| <b>Cash flows from investing activities</b>                |  |  |
| Payments for plant and equipment                           | (668)  | (784)  |
| Proceeds from sale of shares                               | 98   | -  |
| Investment in term deposit                                 | -  | (574)  |
| <b>Net cash used in investing activities</b>               | <b>(570)</b>   | <b>(1,358)</b>   |
| <b>Cash flows from financing activities</b>                |  |  |
| Proceeds from issue of shares                              | 853  | 3,140  |
| Payment of share issue costs                               | (51)   | (149)  |
| Proceeds from loans  | 250  | -  |
| Payment of loan  | (250)  | (56)   |
| Proceeds from borrowings                                   | 208  | -  |
| Repayment of finance lease principal                       | (167)  | (253)  |
| <b>Net cash (used in) provided by financing activities</b> | <b>843</b>   | <b>2,682</b>   |
| <b>Net (decrease) in cash held</b>                         | <b>(620)</b>   | <b>1,478</b>   |
| <b>Cash at the beginning of the financial year</b>         | <b>961</b>   | <b>341</b>   |
| <b>Cash as at the end of the financial year</b>            | <b>341</b>   | <b>1,819</b>   |

## **2.1.2 Management team**

### **Christopher Gale**

Mr Gale is the founder of Swiftel and the sole executive officer acting as the Chief Executive Officer ("CEO") and as an Executive Director on the board. He has more than 15 years experience in the data communications field, servicing customer needs for high quality data communications products and services. Mr Gale also has substantial experience in emerging technologies for data communication networks.

## **2.1.3 Swiftel Board of Directors**

The Swiftel board of directors consists of the following members:

### **Malcolm Dick**

Mr Dick has extensive experience in the telecommunications industry including roles as the CEO of Netway Telecommunications, a joint venture between Telecom NZ and Freightways Group. Mr Dick has subsequently established Call Centre Australia Pty Ltd a switchless carrier which was sold to RSLCOM. Mr Dick is currently a part owner of CallPlus Limited which is New Zealand's third largest fixed line carrier and Slingshot a dial-up Internet Service Provider ("ISP"). He is also a director and shareholder of Argent Networks Limited.

### **Colin Marland**

Mr Marland has more than 20 years experience in the telecommunications industry and specialises in the conception and start-up phase of telecommunication companies and has successfully listed several companies on the ASX. Mr Marland was co-founder of People Telecom and corpTel group prior to its sale in 1998 to AAPT Limited. He has served on the board of the telecommunications ombudsman and several listed telecommunications companies and is also the CEO of the Chifley Group an executive board member and major shareholder of People Telecom.

### **David Vilensky**

Mr Vilensky is a practising solicitor and managing partner of Perth law firm Bowen Buchbinder Vilensky. Mr Vilensky has over 20 years experience in the field of corporate and business law and in commercial and corporate management. He has a special interest in the duties and obligations of company directors under the Corporations Act 2001 and has acted for a number of listed and public companies in this regard.

The following directors also currently sit on the Swiftel board of directors, Dr Saliba Sassine, the Chairman and non-executive director and Mr Adrian Paul, a non-executive director.

Following completion of the People Telecom Transaction, it is proposed that Mr Gale, Dr Sassine and Mr Paul resign from the board. Ryan O'Hare, Brendan Fleiter and Barry Hamilton, being current directors of People Telecom, will be appointed under resolutions 4, 5 and 6 of the NGM. It is also proposed that Mr Hamilton become the chairman.

## 2.2 People Telecom

People Telecom Limited ("People Telecom") is an unlisted public company, which was established in 2000 with a mission to provide telecommunication services to the Australian corporate and public markets.

People Telecom was co-founded by Ryan O'Hare and Colin Marland who created telecommunications service provider corpTel Communications Limited, prior to its sale to AAPT Limited in 1998. Barry Hamilton was also a co-founder of People Telecom and has acted as Chairman since 2002.

People Telecom operates in the telecommunications sector providing customer and account management services for business customers in Australia. The products offered by People Telecom comprise the following categories;

- Fixed wire outbound products such as local, long distance;
- Fixed wire inbound products such as 1300/1800 and 13 specialised services;
- Mobile services such as Optus GSM and Telstra CDMA;
- Data services such as landline and satellite Broadband, Virtual Private Networks, fibre optic connectivity and hosting services;
- Enhanced services such as fax and SMS broadcasting, voice and video conferencing;
- Customer premises equipment including PABX systems and upgrades, handsets and softwares;
- Enhanced billing and on-line services;
- Specialised near real time reporting for all inbound and outbound call services; and
- Personal account management both inbound and on site.

The majority of People Telecom's revenues are generated from voice billing for all fixed wire and mobile products. The core systems are linked to carrier service platforms, including Telstra, Optus, AAPT, Request DSL, Swiftel, Uecomm and MultieMedia. People Telecom manages over 10,000 business customers nationally.

## 2.2.1 People Telecom Financials

Set out below are the audited statements of Financial Performance, Financial Position and Cashflows for People Telecom for the year ended 30 June 2003. The half-year information to 31 December 2003 is unaudited.

| Statement of Financial Performance | People Telecom Limited                      |   |
|------------------------------------|---|---|
|                                    | Audited Year ended<br>30 June 2003<br>\$000 | Unaudited Half<br>Year ended 31<br>December 2003<br>\$000 |
| Sales                              | 41,995                                      | 26,650  |
| Cost of Sales                      | (32,310)                                    | (19,468)  |
| <b>Gross Profit</b>                | <b>9,685</b>                                | <b>7,182</b>  |
| Other Expenses                     | (8,955)                                     | (5,873)   |
| <b>EBITDA</b>                      | <b>730</b>                                  | <b>1,309</b>  |
| Depreciation & amortisation        | (770)                                       | (601)   |
| <b>EBIT</b>                        | <b>(40)</b>                                 | <b>708</b>  |
| Net Interest                       | 190   | 105   |
| <b>Profit before tax</b>           | <b>150</b>                                  | <b>813</b>  |
| <b>Tax charge</b>                  | <b>-</b>                                    | <b>-</b>  |
| <b>Net Profit after tax</b>        | <b>150</b>                                  | <b>813</b>  |

| Statement of Financial Position | People Telecom Limited                      |   |
|---------------------------------|---|---|
|                                 | Audited Year ended<br>30 June 2003<br>\$000 | Unaudited Half<br>Year ended 31<br>December 2003<br>\$000 |
| Current Assets                  | 9,798                                       | 12,808  |
| Non Current Assets              | 2,541                                       | 2,509   |
| <b>TOTAL ASSETS</b>             | <b>12,339</b>                               | <b>15,317</b>   |
| Current Liabilities             | 9,192                                       | 10,779  |
| Non Current Liabilities         | 1,017                                       | 1,595   |
| <b>TOTAL LIABILITIES</b>        | <b>10,209</b>                               | <b>12,374</b>   |
| <b>NET ASSETS</b>               | <b>2,130</b>                                | <b>2,944</b>  |
| <b>Equity</b>                   |   |   |
| Contributed Equity              | 20,491                                      | 20,491  |
| Accumulated losses              | (18,361)                                    | (17,547)  |
| <b>TOTAL EQUITY</b>             | <b>2,130</b>                                | <b>2,944</b>  |

| Cashflow Statement   | People Telecom Limited                      |   |
|--|---|---|
|  | Audited Year ended<br>30 June 2003<br>\$000 | Unaudited Half Year<br>ended 31 December<br>2003<br>\$000 |
| <b>Cash flows from operating activities</b>                |   |   |
| Cash receipts in the course of operations                  | 42,206                                      | 27,053  |
| Cash payments in the course of operations                  | (41,154)                                    | (25,065)  |
| Interest received  | 136   | 103   |
| <b>Net cash provided by/(used in) operating activities</b> | <b>1,188</b>                                | <b>2,091</b>  |
| <b>Net cash used in investing activities</b>               | <b>(300)</b>                                | <b>(113)</b>  |
| <b>Cash flows from financing activities</b>                |   |   |
| Distribution of surplus capital                            | (4,274)                                     | -   |
| <b>Net cash (used in) provided by financing activities</b> | <b>(4,274)</b>                              | <b>-</b>  |
| <b>Net (decrease) in cash held</b>                         | <b>(3,386)</b>                              | <b>1,978</b>  |
| <b>Cash at the beginning of the financial year</b>         | <b>6,442</b>                                | <b>3,056</b>  |
| <b>Cash as at the end of the financial year</b>            | <b>3,056</b>                                | <b>5,034</b>  |

## 2.2.2 People Telecom Board of Directors

The People Telecom board of directors consists of the following members:

### Ryan O'Hare

Mr O'Hare is one of two co-founders of corpTel Group of Companies and served as the CEO and Chairman from 1994 through to the sale of the company to AAPT Limited in 1998. He acts as CEO and Executive Director to People Telecom and has extensive experience in the management and operation of telecommunications cost management.

### Barry Hamilton

Mr Hamilton is an experienced public company director with significant experience in capital raisings, financing, company secretarial and public office duties and project management. Mr Hamilton worked for Hudson Conway for 12 years where he was a member of the board for 9 years. He was also a non-executive director of Crown Limited until it was taken over by Publishing and Broadcasting Limited. Currently Mr Hamilton is Chairman of Directors of the Crazy John's Group of Companies and a director of several unlisted companies.

**Brendan Fleiter**

Mr Fleiter has been a non-executive director of People Telecom since 2002. He is also the Managing Director of Crazy John's Group of Companies and brings substantial experience in the distribution of telecommunications products and services in Australia. Mr Fleiter is also a qualified lawyer.

**Colin Marland**

Mr Marland has more than 20 years experience in the telecommunications industry and specialises in the conception and start-up phase of telecommunication companies and has successfully listed several companies on the ASX. Mr Marland was a co-founder of People Telecom and corpTel group prior to its sale in 1998 to AAPT Limited. He has served on the board of the telecommunications ombudsman and several listed telecommunications companies and is also the CEO of the Chifley Group an executive board member and major shareholder of People Telecom.

## **2.3 The Telecommunications Industry**

### **2.3.1 Telecommunications resellers**

The industry includes participants engaged in the sale of telecommunications services including both mobile and fixed line products utilising the network infrastructure owned by a third party.

The Australian telecommunications industry has enjoyed spectacular growth over the past decade. Driving this growth has been a combination of factors including the liberalisation of the general industry, continued technological innovations which in turn has spurred on a persistent stream of new products and services, strong underlying demand for telecommunications products and services (both existing and emerging) and the general trend of convergence between the telecommunications, entertainment and IT industries.

Over the past decade, the telecommunications resellers segment of the general Australian telecommunications industry has to a large extent benefited from these developments. In 2002-03 industry revenues for this segment were estimated at \$3.3 billion. In the same year, the telecommunications resellers segment accounted for less than 10 percent of the overall Australian telecommunications industry.

Competition within the industry is generally price based but the quality of service is also important to consumers. Over recent years the cost of providing telecommunications services has declined with technological innovation, coupled with increased competition between both carriers and resellers in the domestic market leading to reduced margins.

This competition and margin reduction has seen a consolidation of industry players.

The ability of resellers to provide a single bill for all telecommunication services is important given the increase in the type of telecommunications products now available, including communications, information and entertainment products.

Given the nature of the industry, transmission and interconnection expenses are the single largest identifiable cost item. These are expenses incurred for the actual usage of a carrier's network (both domestic and international) and include usage payments made to carriers and other service providers. In 2002-03, these expenses were estimated to represent approximately 40 percent of revenue.

Wages are thought to be the second largest expense, though in recent years the increasingly competitive environment has seen a number of operators target this expense in various cost cutting exercises designed to improve operating efficiencies.

In comparison to telecommunication carriers, telecommunication resellers do not own or operate highly expensive telecommunication infrastructure such as cables, mobile phone base stations or satellites. This is reflected in the considerably lower depreciation expenses that accrue to telecommunication resellers.

Regulation of the telecommunications industry has seen new legislation enacted to benefit consumers allowing increased competition. Recent regulatory changes have

seen the introduction of number portability and the removal of the requirement to use dialling overrides to access other supplier's networks. Access to Telstra's local network has also been opened up with amendments to the Trade Practices Act.

### **2.3.2 Internet Service providers**

This industry comprises companies primarily engaged in the provision of internet services to both businesses and households.

The provision of access services (both via dialup or via broadband) is the main product segment though industry participants may also be involved in the provision of support services including web page hosting and web development services, domain services, various technical and customised services (such as the development of intranets) and e-commerce based services.

Still in its infancy, the internet has been one of the fastest growing sectors of the telecommunications industry in recent years. Between January 1998 and January 2003 the number of global internet hosts increased from 29.7 million to 171.6 million. According to OECD data, Australia averaged 91 hosts per 1000 inhabitants in 2001 (up from 30 in 1997) compared with an OECD average of 100, an EU average of 53 and 270 hosts per 1000 inhabitants for the United States. Moreover with approximately 10.63 million Australians accessing the internet in early 2002, Australia is believed to have one of the highest internet penetration rates in the world.

According to Australian Bureau of Statistics ("ABS") data, there were 554 ISPs in Australia as at the end of March 2003 offering internet access to just over 5 million active subscribers via 1,687 POPs (points of presence) and 857,470 access lines across the country. On the basis of information provided by the Telecommunications Industry Ombudsman, the number of industry participants is believed to be even higher, with 692 Internet Service Providers ("ISP") as at June 2003 compared to 26 in late 1995.

With average growth rates of approximately 30 percent per annum (albeit derived from a very low base) over the past five years, revenue for the industry is estimated to have been worth \$2.5 billion in 2002-03.

However following the dramatic increase in ISP numbers, recent times have witnessed the start of a consolidation phase as smaller players were forced out of business in view of the highly competitive operating environment or were taken over by larger players looking to grow their operations in order to negotiate more favourable wholesale prices.

The global telecommunications shake-up, falling computer sales and a slow down in internet penetration growth rates has also served to constrain the growth of the industry in recent months.

Given the large number of players within the industry, the Australian ISP industry is deemed to be among the more competitive segments of the general Australian telecommunications industry. According to the Australian Communication Authority ("ACA"), the significant variation in the size of ISPs and the great number of ISPs suggests a healthy, competitive market.

Competition within the Australian ISP industry is thought to have intensified in recent years as witnessed by aggressive pricing policies and falling access charges, various service levels, a vast array of promotional offerings and "package deals" and high customer churn rates.

Competition has also intensified within particular segments such as the pre-paid segment, which is designed to attract lower usage customers. Recent months have also seen a growing level of competition within the broadband market segment. At the same time, these increased competition levels have prompted a move towards consolidation, in both the dial-up access service provision market and in the permanent access markets, and in both the wholesale and retail segments.

Recent years have witnessed a number of ISPs, small and large alike pursue merger and acquisition strategies to increase their subscriber base, maintain or build national/regional coverage and achieve economic scale. These include the likes of AAPT, Austar, Asia Online, Chariot and Pacific Internet.

Others have formed strategic alliances, partnerships or joint ventures, often with players outside of the industry, including content providers and multimedia operators. For example, AOL7 is a three-way joint venture between AAPT/Telecom New Zealand, Seven Network Ltd and America Online, one of the world's leading interactive Internet services companies.

These developments are in line with the trend towards convergence, which is seeing an increasing degree of overlap between the communications, media and IT, industry fields. Thus as the distinctions between the various fields are becoming blurred, ISPs have expanded their product portfolio to include new media and information services.

### ***Product Portfolios***

The performance period has witnessed a number of interesting developments in the range of products/services offered by various participants.

One interesting trend has been the move by industry participants to bundle their service offerings, providing cheaper access internet rates if the internet service is taken as part of a package deal incorporating other telecommunication services such as telephony.

The gradual emergence of broadband technologies will in time be another force changing the dynamics of the industry. Receiving much media coverage in recent times, this access method allows high data rate internet access, including access to more diverse and richer audio and video based content. Despite its slow uptake, there are now believed to be 200 plus industry participants (including nearly 200 ISPs offering ADSL connections through Telstra's wholesale division alone) involved in the provision of broadband internet services (in conjunction with or as instead of the traditional dial up access service) and as at June 2003 there were 516,200 broadband subscribers.

Given the mature nature of the dial up segment, a number of industry players now view broadband as a key growth driver with many pinning their future plans on it. Even companies like Telstra who was one of the first players to enter the broadband market

two years ago is heavily targeting this market segment having invested nearly \$1 billion in its national broadband network to date.

However it is noteworthy that growth in broadband access has been relatively slow in Australia in comparison to other countries, partly because of the high price tag attached. According to a recent OECD study on the adoption of high-speed net services among 30 broadband connected countries, Australia has dropped from 13th place (December 2000) to 19th place (December 2002) whilst a recent Booz Allen Hamilton survey found that Australia's businesses had the lowest level of broadband adoption of the nine advanced countries it investigated.

Australia was found to have a level of just 20 percent connectivity compared with 60 percent for both Sweden and the United States. Similarly, the National Office for the Information Economy ("NOIE") 2003 Information Economy Index put Australia in last place of the 12 benchmarked countries with just 4 percent of households having a broadband connection as at the end of 2002. A recent ITU ("International Telecommunications Union") study put Australia at an even lower 29th place on a table of 30 countries with regards to the number of broadband subscribers per 100 inhabitants (1.4 broadband subscribers per 100 compared with 21.3 subscribers for Korea). A recent AT Kearney report puts the figure at a slightly higher 4 subscribers, compared with 9 for the United States and 14 for Canada.

### **2.3.3 Wired Communications**

This industry comprises companies involved in the provision of voice and data services via the use of landlines, microwaves or satellite linkups. These services include fixed wire telephony services (as opposed to wireless or mobile telephony services), wired network services and cable services, as well as the provision of traditional services such as payphones, telexes, telegraphs and telephone exchange operations.

Industry participants operate and maintain their own switching and transmission facilities used in the provision of such services or may actually own a fixed line telephone network system consisting of wires (copper) or cable (fibre optic). They may then sell spare capacity to other telecommunication carriers or resellers.

The Australian telecommunications industry, including the segment encompassing wired telecommunications carriers, has enjoyed spectacular growth over the past decade. Driving this growth has been a combination of factors including the liberalisation of the general industry, continued technological innovations which in turn has spurred on a persistent stream of new products and services, strong underlying demand for telecommunications products and services (both existing and emerging) and the general trend of convergence between the telecommunications, entertainment and IT industries. Since deregulation in July 1997, the number of Australian telecommunication carriers alone has increased from 3 to 94 whilst product offerings have also proliferated.

In 2002-2003, the Wired Telecommunications Carriers Industry is estimated to have generated revenues of approximately \$20.1 billion, making it the largest telecommunications segment. However it is also interesting to note its decline in relative

importance in recent years in light of the phenomenal growth enjoyed by those segments encompassing various mobile, internet and data services.

### **Basis of Competition**

Competition is principally based on price, service, product innovation (e.g. value adding), and marketing strategies.

#### ***Price***

This is a major basis of competition, as it is often difficult to differentiate products. In some instances, the industry operators offer similar coverage with similar services. Price is, in turn, affected by service providers' cost structures.

#### ***Service***

Customers in recent years have become increasingly sophisticated and are now placing even greater importance on reliable services and on fast resolution of problems. This in turn has seen an increasing reliance on the role of Customer Relationship Management ("CRM") in an attempt to provide a superior level of customer care as a point of differentiation. According to industry analysts, customer service is thought to be of paramount importance in achieving customer loyalty.

Recent years have also seen a considerable increase in the range of services offered. A large range of services can provide competitive advantages in economies of scale and scope, as well as provides a means of "adding value" to basic network connection. For example, the ability to offer local access and local calls can also boost demand for long distance calls and other services offered by the carrier. In addition, with many customers preferring to receive just one invoice (as opposed to a number of invoices from a range of service providers), the ability to offer an integrated communications, information and entertainment package is of increasing significance.

#### ***Product Innovations***

Given the speed of technological advances occurring within this industry, combined with the trend towards convergence, the ability to offer the latest value added features is of paramount importance in differentiating the various players.

Innovative packaging is also becoming an increasingly significant competitive point as players offer integrated combinations of the latest products and services to encourage customers to become multi-product users. Indeed most of the major players now rely on various bundling initiatives.

#### ***Marketing***

Innovative marketing strategies are also becoming an increasingly essential competitive tool. Marketing strategies which focus on cross selling are of key importance.

A number of players cite the importance of branding as a means of differentiation. For example, Optus, an established player in the industry has invested substantial resources

into developing the "Optus" brand, believing it to be a significant variable in customer acquisition and retention across most customer segments. It has also sought to market itself as the "challenger" brand under which it is the first to market with new and innovative value added products/services. Primus is another player who has also devoted considerable financial resources to strengthening its brand within key segments.

### **Other variables**

A number of other variables can also provide a competitive edge, including:

- An established customer base. Incumbents such as Telstra and Optus are able to draw on a large, established customer base which can be used as a source of competitive advantage over newer players, especially for new product or cross selling promoting purposes.
- The existence of an integrated network. This allows players to offer consumers a full suite of integrated products and services which captures the trend towards the convergence of various telecommunications, media and information products.
- A strong presence in the wholesale segment. Not only can this be a means of utilising any spare capacity in the operators' network, it can also be a means of increasing market presence.

The post-July 1997 regulatory regime has had fundamental implications for the level of competition in this industry. Prior to 1 July 1997, the fixed wired telecommunications industry was dominated by a Telstra/Optus duopoly. The new regime however has fundamentally changed the profile of the industry by removing limits on the number of carriers and by limiting anti-competitive behaviour. There are currently 90 plus licensed telecommunication carriers.

Another significant factor influencing the competitive backdrop of the Australian Wired Telecommunications Carriers Industry has been the staged introduction of number portability. This has meant that customers can now choose between competing telecommunications carriers on the basis of price, quality and service without the same lock in effect as previously. Full local number portability came into effect on 1 January 2000, whilst local rate and freephone portability was implemented on 16 January 2000. The introduction of pre-selection in July 1997 which allows a customer to choose a carrier other than Telstra without the need to dial an override code has also been important in influencing the level of competition within the industry.

As with many other industrialised countries who have recently liberalised their telecommunications segment, competition has been much slower to develop in Australia's local service market than in the long distance market.

Customer churn rates can also be a good indicator of the degree of competition within a particular market segment.

### 3 Transaction Details

Based on the resolutions contained in the NGM the Transaction will only proceed where all of the resolutions (18) are passed, as each resolution is dependent on the remaining resolutions being accepted. The following resolutions specifically relate to this Report.

#### 3.1 Swiftel Capital Consolidation

Under resolution 8 of the NGM Swiftel is planning to consolidate its capital (both ordinary shares and options) on a one (1) for two (2) basis. Whereby every two fully paid ordinary shares will be converted into one fully paid ordinary share and every two options (including both listed and unlisted) to acquire an ordinary share in Swiftel into will be converted into one option.

Where the consolidation results in a fraction of a share or option being held post-consolidation by the share or optionholder, the number of securities held will be rounded up to the nearest whole share or option.

#### 3.2 Options Offer

In addition to the share and option consolidation under resolution 8 of the NGM, resolution 3 if approved, will result in an Options Offer being made via a Prospectus to all holders of listed options. If accepted by the listed option holders the Options Offer will result in the cancellation of options in consideration for fully paid ordinary shares. Under the offer, the outstanding listed options will be cancelled and converted into fully paid ordinary shares for no cash consideration on a two (2) for one (1) basis.

#### 3.3 Shares Issued to People Telecom

Following consolidation of the capital of Swiftel, a merger is planned whereby Swiftel will acquire 100% of the fully paid ordinary shares of People Telecom. The consideration for this acquisition is to be satisfied by the issue of fully paid ordinary shares in Swiftel, calculated with reference to the formula below:

$$\text{Number of Swiftel shares} = \frac{A}{2} + \frac{A + B + C}{0.35} \times 0.65 - A$$

Where:

*A is the total number of Swiftel options on issue immediately before settlement up to a maximum of 35 million (pre-consolidation);*

*B is the total number of Swiftel shares on issue immediately before settlement; and*

*C is the total number of Swiftel options in excess of 35 million (pre-consolidation) plus any unlisted options on issue immediately before settlement.*

The new shares issued to People Telecom will be issued in accordance with the existing ownership proportions as shown at Section 4.5.

### **3.4 Election of Director's to Swiftel Board**

As part of the Transaction it is proposed that the directors of People Telecom will be appointed to the Swiftel board. Proposed resolutions 4, 5 and 6 deal with the election of Barry Hamilton, Ryan O'Hare and Brendan Fleiter with such appointments to take place upon completion of the acquisition of People Telecom by Swiftel. Following the appointment of these nominated persons, it is proposed that all of the current directors of Swiftel other than Colin Marland, David Vilensky and Malcolm Dick will resign from the board.

## 4 Effect on capital structure

### 4.1 Consolidation of current Swiftel Capital Structure

As at 16 April 2004, Swiftel had 161,975,262 ordinary shares on issue, 77,352,011 listed options on issue and 9,078,695 unlisted options on issue.

A one (1) for two (2) consolidation of Swiftel's ordinary shares will result in the number of ordinary shares being reduced to 80,987,631, as follows:

| Shareholders                  | Pre-Consolidation | Post-Consolidation |
|-------------------------------|-------------------|--------------------|
|                               | No. of shares     | No. of shares      |
| Swiftel Ordinary Shareholders | 161,975,262       | 80,987,631         |

Where a shareholder holds an uneven number of shares pre-consolidation which results in a fraction of a whole share post-consolidation, the shares will be rounded up to the nearest whole share.

A one (1) for two (2) consolidation of the outstanding Swiftel options (both listed and unlisted) will result in the number of outstanding options being reduced to 42,215,354, as follows:

| Option holders                  | Pre-Consolidation | Post-Consolidation |
|---------------------------------|-------------------|--------------------|
|                                 | No. of options    | No. of options     |
| Swiftel Listed Option Holders   | 77,352,011        | 38,676,006         |
| Swiftel Unlisted Option Holders | 9,078,695         | 4,539,348          |
| <b>Total Options</b>            | <b>86,430,706</b> | <b>43,215,354</b>  |

Where an optionholder holds an uneven number of options pre-consolidation that results in a fraction of a whole option post-consolidation, the options held will be rounded up to the nearest whole option.

### 4.2 Calculation of the number of Swiftel shares to be issued under the Options Offer

Following consolidation of the Swiftel listed options there will be 38,676,006 outstanding listed options subject to the Options Offer.

A prospectus will be issued to the holders of listed options offering the opportunity to convert every two options into one Swiftel ordinary share, with the listed options being cancelled.

Under the terms of the Heads of Agreement certain Swiftel shareholders have agreed to accept the Options Offer, the approval of which will be voted on in Resolution 3 of the NOM. Assuming that Resolution 3 is approved, this will give rise to a minimum level of acceptance of the Options Offer. For the purposes of this Report we have identified the resultant minimum and maximum amount of options to be cancelled and shares to be issued under the Options Offer.

The following table identifies the impact on listed options holders based on the minimum and maximum acceptance of the Options Offer Transaction.

| Option holders                | Pre-Options Offer            | Post-Options Offer (Minimum Acceptance) |                              | Post-Options Offer (Maximum Acceptance) |                     |
|-------------------------------|------------------------------|---|------------------------------|---|---------------------|
|                               |                              | No. of shares                           | No. of options               | No. of shares                           | No. of options      |
| Swiftel Listed Option Holders | No. of options<br>38,676,006 | No. of shares<br>9,477,537              | No. of options<br>18,955,074 | No. of shares<br>19,338,003             | No. of options<br>- |

Following the issue of new shares to the listed option holders the capital structure of Swiftel will be as follows;

| Shareholders                  | Pre-Options Offer           | Post-Options Offer (Minimum) | Post-Options Offer (Maximum) |
|-------------------------------|-----------------------------|------------------------------|------------------------------|
| Swiftel Ordinary Shareholders | No. of shares<br>80,987,631 | No. of shares<br>90,465,168  | No. of shares<br>100,325,634 |

### 4.3 Calculation of the number of shares to be issued under the People Telecom Offer.

The number of shares to be issued to People Telecom shareholders under the People Telecom Offer will be determined based on the share structure prior to Settlement.

The share structure prior to Settlement will be influenced by the take-up of the Options Offer, should it be approved, and as discussed in 4.2 above, there will be a minimum level of take-up. Maximum take-up of the Options Offer assumes 100% acceptance of the offer.

Based on the formula included in the EM the number of ordinary shares issued to People Telecom shareholders following the Options Offer will be as follows:

| Shareholders                | Post-Options Offer (Minimum) | Post-Options Offer (Maximum) |
|-----------------------------|------------------------------|------------------------------|
| People Telecom Shareholders | No. of shares<br>194,749,251 | No. of shares<br>204,311,544 |

#### 4.4 Analysis of aggregate voting power

The issue of between 194.75 million and 204.31 million Swiftel ordinary shares to the shareholders of People Telecom and between 9.48 million and 19.34 million Swiftel ordinary shares under the Options Offer Transaction, will give rise to the following fully diluted shareholding structure.

##### Minimum Options Offer acceptance

| Shareholders                |                   |                    |                    |                |
|-----------------------------|-------------------|--------------------|--------------------|----------------|
|                             | No. of shares     | New shares         | Total shares       | % shareholding |
| Swiftel shareholders        | 80,987,631        | 9,477,537          | 90,465,168         | 30.7%          |
| People Telecom shareholders | -                 | 204,311,544        | 204,311,544        | 69.3%          |
| <b>Total</b>                | <b>80,987,631</b> | <b>213,789,081</b> | <b>294,776,712</b> | <b>100%</b>    |

##### Maximum Options Offer acceptance

| Shareholders                |                   |                    |                    |                |
|-----------------------------|-------------------|--------------------|--------------------|----------------|
|                             | No. of shares     | New shares         | Total shares       | % shareholding |
| Swiftel shareholders        | 80,987,631        | 19,338,003         | 100,325,634        | 34.00%         |
| People Telecom shareholders | -                 | 194,749,251        | 194,749,251        | 66.00%         |
| <b>Total</b>                | <b>80,987,631</b> | <b>214,087,254</b> | <b>295,074,885</b> | <b>100%</b>    |

The maximum increase in the total number of Swiftel ordinary shares following consolidation of the capital structure, the issue of shares to People Telecom and the Options Offer is 214,087,254, which is also above the 15% threshold allowed without shareholders' approval under Chapter 7 of the ASX Listing Rules.

#### 4.5 Analysis of individual voting power

The major shareholders of Swiftel pre and post consolidation are set out as follows:

| Shareholders                  | Pre-Consolidation  | Post-Consolidation |                |
|-------------------------------|--------------------|--------------------|----------------|
|                               | No. of shares      | No. of shares      | % shareholding |
| Sunshore Holdings Pty Ltd     | 9,938,850          | 4,969,425          | 6.14%          |
| Mr Malcolm Dick               | 9,101,667          | 4,550,834          | 5.62%          |
| National Nominees Limited     | 8,612,707          | 4,306,354          | 5.32%          |
| Mr Christopher Peter Gale     | 8,287,000          | 4,143,500          | 5.12%          |
| Dr Salim Cassim               | 5,050,000          | 2,525,000          | 3.12%          |
| Rivacre Investments Pty Ltd   | 4,333,333          | 2,166,667          | 2.68%          |
| Haifa Pty Ltd                 | 4,319,891          | 2,159,946          | 2.67%          |
| Queensland Investment         | 3,900,000          | 1,950,000          | 2.41%          |
| Situate Pty Ltd               | 3,500,000          | 1,750,000          | 2.16%          |
| Mr Steven Mate Kunac          | 3,001,167          | 1,500,584          | 1.85%          |
| Kamala Holdings Pty Ltd       | 2,676,379          | 1,338,190          | 1.65%          |
| Nashar Pty Ltd                | 2,666,667          | 1,333,334          | 1.65%          |
| E-Cash Aust Pty Ltd           | 2,333,000          | 1,166,500          | 1.44%          |
| Shayne Taylor Pty Ltd         | 1,941,054          | 970,527            | 1.20%          |
| Nashar Holdings Pty Ltd       | 1,666,667          | 555,556            | 1.03%          |
| Coilens Corporation Pty Ltd   | 1,575,000          | 787,500            | 0.97%          |
| Ridgelea Enterprises Pty Ltd  | 1,570,000          | 785,000            | 0.97%          |
| J P Morgan Nominees Australia | 1,484,918          | 742,459            | 0.92%          |
| Cintra Holdings Pty Ltd       | 1,350,000          | 675,000            | 0.83%          |
| Intersuisse Issues Nominees   | 1,255,000          | 627,500            | 0.77%          |
| Mr John Vincent Caruso        | 1,235,500          | 617,750            | 0.76%          |
| Other Minority Shareholders   | 82,176,462         | 41,088,227         | 50.72%         |
| <b>Total</b>                  | <b>161,975,262</b> | <b>80,987,631</b>  | <b>100%</b>    |

The pre-Transaction and post-Transaction share structure of People Telecom is as follows:

| Shareholders                | People Telecom shares | % shareholding | Swiftel Shares issued under Minimum Options Offer acceptance | Swiftel Shares issued under Maximum Options Offer acceptance |
|-----------------------------|-----------------------|----------------|--|--|
| Telino Pty Ltd              | 4,262,194             | 33.07%         | 67,575,361   | 64,412,665   |
| Reven Pty Ltd               | 2,131,097             | 16.53%         | 33,787,681   | 32,206,332   |
| Nashar Pty Ltd              | 1,853,836             | 14.39%         | 29,391,820   | 28,016,209   |
| Rivacre Investments Pty Ltd | 1,853,836             | 14.39%         | 29,391,820   | 28,016,209   |
| Clystar Pty Ltd             | 1,000,000             | 7.76%          | 15,854,595   | 15,112,561   |
| Clystom Pty Ltd             | 1,000,000             | 7.76%          | 15,854,595   | 15,112,561   |
| Kazim Reza                  | 725,619               | 5.63%          | 11,504,396   | 10,965,961   |
| Sharon O'Neil               | 30,000                | 0.23%          | 475,638  | 453,377  |
| Gavin Roche                 | 20,000                | 0.16%          | 317,092  | 302,251  |
| Kamile Eid                  | 10,000                | 0.08%          | 158,546  | 151,125  |
| <b>Total</b>                | <b>12,886,582</b>     | <b>100%</b>    | <b>204,311,544</b>   | <b>194,749,251</b>   |

The issue of between 194.75 million and 204.31 million Swiftel ordinary shares to the shareholders of People Telecom and between 9.48 million and 19.34 million Swiftel ordinary shares under the Options Offer Transaction, will give rise to the following fully diluted shareholding structure with the major shareholders as follows:

| <b>Shareholders</b>           | <b>Final Minimum Shareholdings</b> | <b>%</b>       | <b>Final Maximum Shareholdings</b> | <b>%</b>       |
|-------------------------------|------------------------------------|----------------|------------------------------------|----------------|
| Telino Pty Ltd                | 67,575,361                         | 22.92%         | 64,412,665                         | 21.83%         |
| Reven Pty Ltd                 | 33,787,681                         | 11.46%         | 32,206,332                         | 10.91%         |
| Nashar Pty Ltd                | 31,725,154                         | 10.76%         | 30,349,543                         | 10.29%         |
| Rivacre Investments Pty Ltd   | 31,558,487                         | 10.71%         | 30,182,876                         | 10.23%         |
| Clystar Pty Ltd               | 15,854,595                         | 5.38%          | 15,112,561                         | 5.12%          |
| Clystorm Pty Ltd              | 15,854,595                         | 5.38%          | 15,112,561                         | 5.12%          |
| Kazim Reza                    | 11,504,396                         | 3.90%          | 10,965,961                         | 3.72%          |
| Sunshore Holdings Pty Ltd     | 8,977,479                          | 3.05%          | 8,977,479                          | 3.04%          |
| Mr Malcolm Dick               | 6,588,334                          | 2.24%          | 6,588,334                          | 2.23%          |
| Mr Christopher Peter Gale     | 4,768,500                          | 1.62%          | 4,768,500                          | 1.62%          |
| National Nominees Limited     | 4,306,354                          | 1.46%          | 4,705,050                          | 1.59%          |
| Dr Salim Cassim               | 2,525,000                          | 0.86%          | 3,025,000                          | 1.03%          |
| Haifa Pty Ltd                 | 2,159,946                          | 0.73%          | 2,159,946                          | 0.73%          |
| Queensland Investment         | 1,950,000                          | 0.66%          | 1,950,000                          | 0.66%          |
| Situate Pty Ltd               | 1,750,000                          | 0.59%          | 1,750,000                          | 0.59%          |
| Ridgelea Enterprises Pty Ltd  | 1,671,250                          | 0.57%          | 1,671,250                          | 0.57%          |
| Mr Steven Mate Kunac          | 1,500,584                          | 0.51%          | 1,500,584                          | 0.51%          |
| Kamala Holdings Pty Ltd       | 1,338,190                          | 0.45%          | 1,338,190                          | 0.45%          |
| O'hare Enterprises Pty Ltd    | 1,295,733                          | 0.44%          | 1,295,733                          | 0.44%          |
| E-Cash Aust Pty Ltd           | 1,166,500                          | 0.40%          | 1,166,500                          | 0.40%          |
| Shayne Taylor Pty Ltd         | 970,527                            | 0.33%          | 970,527                            | 0.33%          |
| Nashar Holdings Pty Ltd       | 833,334                            | 0.28%          | 833,334                            | 0.28%          |
| Coilens Corporation Pty Ltd   | 787,500                            | 0.27%          | 787,500                            | 0.27%          |
| J P Morgan Nominees Australia | 742,459                            | 0.25%          | 742,459                            | 0.25%          |
| Cintra Holdings Pty Ltd       | 675,000                            | 0.23%          | 675,000                            | 0.23%          |
| Intersuisse Issues Nominees   | 627,500                            | 0.21%          | 627,500                            | 0.21%          |
| Mr John Vincent Caruso        | 617,750                            | 0.21%          | 617,750                            | 0.21%          |
| Other minority holders        | 41,664,503                         | 14.13%         | 50,581,750                         | 17.14%         |
| <b>Total</b>                  | <b>294,776,712</b>                 | <b>100.00%</b> | <b>295,074,885</b>                 | <b>100.00%</b> |

## 4.6 Director and Director Related Shareholdings

For the purposes of Item 7 Section 611 of the Corporations Act, certain Swiftel Directors will have a direct or beneficial interest in the shares of the Company. This is set out below on a post-Transaction basis, and these Directors will be precluded from voting in certain resolutions contained in the NOM.

| Shareholders                 |                               |                |                               |                |
|------------------------------|-------------------------------|----------------|-------------------------------|----------------|
|                              | Minimum No. of Swiftel shares | % shareholding | Maximum No. Swiftel of shares | % shareholding |
| <b>Christopher Gale</b>      |                               |                |                               |                |
| Mr Christopher Peter Gale    | 4,768,500                     | 1.62%          | 4,768,500                     | 1.62%          |
| Ridgelea Enterprises Pty Ltd | 1,671,250                     | 0.57%          | 1,671,250                     | 0.57%          |
| <b>David Vilensky</b>        |                               |                |                               |                |
| Coilens Corporation Pty Ltd  | 787,500                       | 0.25%          | 787,500                       | 0.25%          |
| <b>Malcolm Dick</b>          |                               |                |                               |                |
| Mr Malcolm Dick              | 6,588,334                     | 2.24%          | 6,588,334                     | 2.23%          |
| <b>Adrian S Paul</b>         |                               |                |                               |                |
| Sunshore Holdings Pty Ltd    | 8,977,479                     | 3.05%          | 8,977,479                     | 3.04%          |
| Cintra Holdings Pty Ltd      | 675,000                       | 0.23%          | 675,000                       | 0.23%          |
| Sunshore Pty Ltd             | 37,500                        | 0.01%          | 37,500                        | 0.01%          |
| <b>Colin Marland</b>         |                               |                |                               |                |
| Rivacre Investments Pty Ltd  | 31,558,487                    | 10.71%         | 30,182,876                    | 10.57%         |
| Clystar Pty Ltd              | 15,854,595                    | 5.38%          | 15,112,561                    | 5.12%          |
| E-Cash Aust Pty Ltd          | 583,250                       | 0.20%          | 583,250                       | 0.20%          |
| <b>Ryan O'Hare</b>           |                               |                |                               |                |
| Nashar Pty Ltd               | 31,725,154                    | 10.76%         | 30,349,543                    | 10.29%         |
| Clystorm Pty Ltd             | 15,854,595                    | 5.38%          | 15,112,561                    | 5.12%          |
| O'hare Enterprises Pty Ltd   | 1,295,733                     | 0.44%          | 1,295,733                     | 0.44%          |
| Nashar Holdings Pty Ltd      | 833,334                       | 0.28%          | 833,334                       | 0.28%          |
| E-Cash Aust Pty Ltd          | 583,250                       | 0.20%          | 583,250                       | 0.20%          |
| <b>Barry Hamilton</b>        |                               |                |                               |                |
| Reven Pty Limited            | 33,787,681                    | 11.46%         | 32,206,332                    | 10.91%         |
| Thirty Fourth Zulu Pty Ltd   | 100,000                       | 0.03%          | 100,000                       | 0.03%          |
| <b>Brendan Fleiter</b>       |                               |                |                               |                |
| Telino Pty Ltd               | 67,575,361                    | 22.92%         | 64,412,665                    | 21.83%         |
| Nebula Super Co Pty Ltd      | 100,000                       | 0.03%          | 100,000                       | 0.03%          |

## **5 Methodology**

### **5.1 Basis of evaluation**

In determining whether the Options Offer Transaction and the People Telecom Transaction are fair and reasonable, we have had regard to the views expressed by ASIC which suggests that an opinion as to whether the Transactions are fair and reasonable will entail;

- A comparison between the offer consideration and the value of the assets under offer, being only one element of a fair and reasonable opinion; and
- An investigation into other significant factors to which the non-associated shareholders of Swiftel might give consideration prior to approving the resolution, after reference to the value derived above. This includes comparing the likely advantages and disadvantages to the non-associated shareholders, if the Transactions are agreed to, as well as the likely advantages and disadvantages to those shareholders if it is not.

### **5.2 Evaluation approach**

In order to provide shareholders of Swiftel with a view on whether the Transactions are fair and reasonable, we undertook the following approach;

- Considered the value of the shares to be acquired under the proposed Transactions and the value of the consideration to be paid, this being only one element of our fair and reasonable opinion; and
- Compared the likely advantages and disadvantages to non-associated shareholders of Swiftel if the Transactions are agreed to, with the advantages and disadvantages to non-associated shareholders if they are not.

## **6 Swiftel Share Issue – Evaluation of consideration offered under the Options Offer Transaction and the People Telecom Transaction**

### **6.1 Purpose**

This section presents the results of our evaluation and analysis of the fair value of the consideration offered including the valuation methodologies considered and applied.

To arrive at our fair and reasonable opinion, we have included in our considerations, the value of Swiftel shares.

### **6.2 Valuation methodologies**

In considering the value of Swiftel shares as part of our consideration of the fairness and reasonableness of the Transactions, the following valuation approaches were considered;

- a) Capitalisation of future maintainable earnings (“CFME Approach”) – which capitalises the level of future maintainable earnings of the business using a capitalisation multiple as a basis for determining the value of the business. This is then added to the realisable value of any surplus assets to arrive at the value of the company;
- b) Discounted Cash Flow method (“DCF Approach”) – which discounts all future cash flows of the business to present value as a basis for determining the value of the company;
- c) Asset value approach (“Asset Approach”) – which involves either the determination of net realisable value of the assets of the company assuming an orderly realisation of those assets, less reasonable sale costs, or the calculation of total assets of the company, less total liabilities and any intangible assets as a basis for determining the value of the company; and
- d) Market comparison (“Market Approach”) – which uses prices from recent sales of the assets, or shares in the asset as a guide to current value. This approach includes the use of current share prices for companies that are listed on the ASX.

### **6.3 Valuation methodology selected in valuing Swiftel**

We considered the Market Approach to be the most appropriate method in valuing the shares of Swiftel as there are publicly quoted prices for its shares, which we believe best reflect their fair market values. The Market Approach generally provides a fair guide to value based on actual exchanges between willing and able buyers and willing and able sellers at arm's length.

The DCF Approach requires cash flow forecasts of the Company in order to be able to discount these cash flows to present value. Cash flow forecasts, if any, are likely to be based on hypothetical assumptions due to the lack of consistent track record of Swiftel's business. Hence, it would not have been an appropriate methodology in establishing the value of Swiftel due to the significant uncertainty in the projected cash flows and the substantial number of contingent events that need to take place for Swiftel to realise its projections. Therefore, the DCF Approach was not considered to be an appropriate approach to apply in this situation.

The CFME Approach relies on the comparison with other similar listed companies to obtain a suitable multiple for Swiftel. These multiples are implied by the publicly quoted share prices of these listed companies. If the publicly quoted share prices are indicative of fair market values of these listed companies and Swiftel itself is a listed company, applying the CFME Approach will more likely misrepresent the fair market value of Swiftel than it would improve the reliability of the result. Hence, the CFME Approach was not considered appropriate in this situation.

The Asset Approach is generally adopted when an entity being valued has ceased to be a going concern, does not have a strong profit history, for largely capital intensive businesses, or when no other approaches are appropriate. A commonly used asset-based approach is the NTA Approach. The NTA Approach was not applied as the Market Approach was deemed more appropriate.

Swiftel is currently in a loss making position, with forecast results for 2004 showing a full-year loss of \$1.6 million at the EBITDA level, on sales of \$17.2 million. The Directors have forecast an improvement into 2005 with additional growth in forecast revenue expected to move the Company into a breakeven scenario during the 2005 year.

#### **6.4 Valuation of Swiftel shares**

As Swiftel is a publicly listed company trading on the ASX, we have considered its current share price and its 12-month share trading history as a guide to its fair value.

Swiftel was first listed on ASX in June 2000. Swiftel has approximately 162 million shares on issue with a market capitalisation of approximately \$17.8 million based on the current share price of \$0.11 as at 15 April 2004.

The following graph shows the 12-month share trading history from 24 March 2003 to 23 March 2004. The closing share price ranged from a low of \$0.03 to a high of \$0.145.



Source: IRESS

The following table shows this trading history, and the weighted average results over the past 12 months.

| Period | Share Price (cents) |      |                  | Volume Traded    |                         |                           |
|--------|---------------------|------|------------------|------------------|-------------------------|---------------------------|
|        | Low                 | High | Weighted Average | Traded<br>(,000) | % of shares<br>on issue | Number of<br>Transactions |
| Apr 03 | 2.9                 | 3.4  | 3.1              | 2,666            | 3.1%                    | 23                        |
| May 03 | 3.5                 | 4.2  | 3.8              | 1,377            | 1.1%                    | 24                        |
| Jun 03 | 3.7                 | 4.0  | 3.8              | 2,394            | 1.9%                    | 52                        |
| Jul 03 | 3.5                 | 5.2  | 4.1              | 3,608            | 2.8%                    | 81                        |
| Aug 03 | 5.0                 | 10.5 | 8.5              | 35,844           | 28.0%                   | 926                       |
| Sep 03 | 9.5                 | 13.0 | 10.8             | 30,284           | 21.3%                   | 864                       |
| Oct 03 | 8.3                 | 11.5 | 9.5              | 15,332           | 10.8%                   | 450                       |
| Nov 03 | 11.0                | 14.5 | 13.0             | 44,121           | 31.1%                   | 1,354                     |
| Dec 03 | 10.5                | 14.0 | 12.1             | 13,208           | 8.5%                    | 428                       |
| Jan 04 | 11.5                | 14.0 | 12.4             | 11,673           | 7.2%                    | 354                       |
| Feb 04 | 11.0                | 13.5 | 12.3             | 15,566           | 9.6%                    | 444                       |
| Mar 04 | 10.5                | 15.5 | 12.0             | 17,842           | 11.0%                   | 444                       |
| Apr 04 | 12.0                | 10.0 | 10.9             | 2,275            | 1.4%                    | 82                        |

Source: IRESS

Note 1: April 03 share trading data includes trades between 16 April and the end of the month.

Note 2: April 04 share trading data includes trades up to 16 April.

The following table summarises the weighted average price of the listed options over various historical periods:

| Period          | Weighted Average Share Price (cents) |
|-----------------|--------------------------------------|
| 1 month         | 11.6                                 |
| 3 months        | 11.9                                 |
| <b>6 months</b> | <b>12.0</b>                          |
| 12 months       | 9.6                                  |

We believe that the recent growth in Swiftel's DSL business, which has occurred over the past 6 months, has contributed to the improvement in Swiftel's share price during this time. Accordingly, the most meaningful period over which to analyse Swiftel's share price for the purposes of this valuation exercise is the past 6 months.

The Weighted Average share price of Swiftel over the last 6 months between 16 October 2003 and 15 April 2004, in which there were 117 trading days was 12.0 cents per share, based on the volume and prices of the trades during this period.

In view of the above, we believe that the weighted average share price of \$0.120 per share is assessed to be the best estimate of our valuation of Swiftel's shares.

As the Swiftel ordinary shares will be consolidated on a one-for-two basis, the value per share post share consolidation will be **\$0.24** (as compared with \$0.21 based on close of business on Friday 16 April 2004), valuing Swiftel at **\$19.44 million**, based on there being 80,987,631 shares on issue on a post consolidation basis.

## 6.5 Value of offer consideration

### 6.5.1 Options Offer Transaction

Under the Options Offer Transaction, Swiftel will issue a minimum of 9.48 million shares and a maximum of 19.33 million shares in consideration for the cancellation of listed options.

Importantly, the issue of these shares serves however only to increase the number of shares on issue, not the value of the Company, which we have calculated to be \$19.44 million. Accordingly the issue of shares under the Options Offer Transaction impacts the resultant valuation per share and hence the consideration paid as follows:

| Shareholders                  | Minimum           |                 | Maximum            |                 |
|-------------------------------|-------------------|-----------------|--------------------|-----------------|
|                               | No. of shares     | Value per share | Total shares       | Value per share |
| Swiftel shareholders          | 80,987,631        | \$0.24          | 80,987,631         | \$0.24          |
| Swiftel listed option holders | 9,477,538         | n/a             | 19,338,003         | N/a             |
| <b>New value per share</b>    | <b>90,465,168</b> | <b>\$0.2149</b> | <b>100,325,634</b> | <b>\$0.1937</b> |

Based on this analysis, the total value of the consideration paid for the cancellation of the listed options under the Options Offer Transaction is between **\$2.04 million** and **\$3.75 million**.

### 6.5.2 People Telecom Transaction

The value of the consideration paid under the People Telecom Transaction is a function of both the value of a Swiftel share and the number of Swiftel shares issued. Both of these variables are however influenced by the outcome of the Options Offer Transaction and the analysis presented in 6.5.1 above.

Based on the formula included in the EM the number of ordinary shares issued to People Telecom shareholders following the Options Offer and the resultant value of the consideration to paid will be as follows;

| Shareholders                       | Post-Options Offer<br>(Minimum) | Post-Options Offer<br>(Maximum) |
|------------------------------------|---------------------------------|---------------------------------|
|                                    | No. of shares                   | No. of shares                   |
| People Telecom Shareholders        | 194,749,251                     | 204,311,544                     |
| New value per share                | \$0.1937                        | \$0.2149                        |
| <b>Value of consideration paid</b> | <b>\$37,722,929</b>             | <b>\$43,906,551</b>             |

The total value of the consideration payable by Swiftel under the People Telecom Transaction is between **\$37.72 million** and **\$43.91 million**.

### 6.6 Premium for control

The above values of Swiftel shares and options do not take into account any premium for control and represent only the value of a minority holding of shareholding in Swiftel.

Although the aggregate voting power of the People Telecom shareholders exceeds 20%, individual shareholders do not gain a significant level of control of the Company individually. Hence, we believe that the premium for control is not applicable in this situation.

## **7 Evaluation of assets to be acquired – Options Offer Transaction**

### **7.1 Purpose**

This section presents the results of our evaluation and analysis of the fair value of the assets to be acquired under the Options Offer Transaction including the valuation methodologies considered and applied.

To arrive at our fair and reasonable opinion, we have included in our consideration, the value of Swiftel shares issued to listed option holders of Swiftel.

### **7.2 Valuation of options**

In considering the value of Swiftel listed options as part of our consideration of the fairness and reasonableness of the Options Offer, the following valuation approaches were considered;

- a) Technical Valuation Approach (“Technical Approach”) – which relies on options pricing models such as the Black-Scholes pricing model (“BSPM”) or the Binomial Option pricing model (“BOPM”) to calculate the value of the listed options to be cancelled; and
- b) Market Valuation Approach (“Market Approach”) – which uses the price of a listed option as the basis for the value of the listed option to be cancelled.

### **7.3 Valuation methodology selected in valuing Swiftel’s listed options**

We considered the Market Approach to be the most appropriate method in valuing the listed options of Swiftel as the options have a publicly quoted price, which we believe, reflects their fair market value. The Market Approach generally provides a fair guide to value based on actual exchanges between willing and able buyers and willing and able sellers at arm’s length.

The Technical Approach has been used to calculate the value of the listed options to be cancelled under the Options Offer for the purpose of a cross-check.

### **7.4 Valuation of Swiftel listed options**

As the listed options will be consolidated the options have been valued on this basis (consolidated on a one (1) for two (2) basis).

#### **7.4.1 The Market Approach**

The Swiftel options are listed on the ASX (“SWTOA”) and were trading at 5.3 cents each as at 16 April 2004.

The following graph shows the 12-month listed option trading history from April 2003 to April 2004. The listed option closing price ranged from a low of \$0.004 to a high of \$0.065.



Source: IRESS

The following table sets out the trading history of the listed options over the past 12 months.

| Period | Listed Option Price (cents) |      |                  | Volume Traded |                              |                        |
|--------|-----------------------------|------|------------------|---------------|------------------------------|------------------------|
|        | Low                         | High | Weighted Average | Traded (,000) | % of listed options on issue | Number of Transactions |
| Apr 03 | 0.9                         | 0.9  | 0.9              | 200           | 0.32%                        | 2                      |
| May 03 | 0.4                         | 0.8  | 0.5              | 752           | 1.19%                        | 7                      |
| Jun 03 | 0.4                         | 0.7  | 0.5              | 2,306         | 3.64%                        | 5                      |
| Jul 03 | 0.5                         | 0.8  | 0.6              | 551           | 0.87%                        | 5                      |
| Aug 03 | 0.8                         | 5.0  | 3.2              | 11,253        | 17.76%                       | 116                    |
| Sep 03 | 3.7                         | 5.4  | 4.6              | 7,304         | 11.53%                       | 96                     |
| Oct 03 | 3.4                         | 4.8  | 3.9              | 1,868         | 2.95%                        | 24                     |
| Nov 03 | 4.3                         | 6.5  | 5.6              | 8,815         | 13.11%                       | 150                    |
| Dec 03 | 4.5                         | 6.0  | 5.4              | 1,329         | 1.72%                        | 38                     |
| Jan 04 | 5.2                         | 6.0  | 5.5              | 1,920         | 2.48%                        | 33                     |
| Feb 04 | 4.5                         | 6.2  | 5.6              | 3,815         | 4.93%                        | 52                     |
| Mar 04 | 4.5                         | 6.4  | 5.5              | 5,039         | 6.51%                        | 76                     |
| Apr 04 | 4.3                         | 5.3  | 5.1              | 415           | 0.54%                        | 10                     |

Source: IRESS

Note 1: April 03 option trading data includes trades between 16 April and the end of the month.

Note 2: April 04 option trading data includes trades up to 16 April.

The following table summarises the weighted average price of the listed options over various historical periods:

| Period          | Weighted Average Listed Option Price (cents) |
|-----------------|--|
| 1 month         | 5.5  |
| 3 months        | 5.5  |
| <b>6 months</b> | <b>5.4</b>                                   |
| 12 months       | 4.4  |

We have selected the 6-month period as that which in our opinion best represents the value of the Swiftel listed options. During this period the weighted average listed option price was 5.4 cents. The value of the Swiftel listed options on a post-Consolidation basis will therefore be **10.8 cents** each based on the Market Approach.

Under the Options Offer Transaction two (2) listed options will be cancelled in consideration for one Swiftel ordinary share meaning the consideration to acquire the asset will be **\$0.216** per ordinary share.

#### 7.4.2 Valuation Crosscheck - The Technical Approach

Valuation of the Swiftel listed options post consolidation has been conducted using both the BSPM and BOPM as a crosscheck. These options are American type options, which can be exercised at any time up to the expiry date of the options. While the BOPM is more suited to valuing American type options, BSPM is also a commonly used and accepted model in Australia. Hence, we have also used the BSPM as a crosscheck.

The inputs for the BSPM and BOPM are as follows:

- Share price – \$0.22
- Strike price – \$0.20
- Term – 341 days or 0.93 years
- Volatility – 88%
- Interest rate – 5.4%

Share price of \$0.22 is the theoretical share price post-consolidation based on the current share price of \$0.11. The strike price of \$0.20 is the theoretical exercise price of the options based on the current exercise price of \$0.10.

Volatility is defined as the standard deviation of the continuously compounded rate of return in one year. Continuously compounded rate of return is calculated using the logarithm of price in the current period divided by the price of the previous period. The Australian Graduate School of Management (“AGSM”) calculates standard deviation or volatility of listed companies based on monthly data over four years. Based on AGSM's standard deviation provided for Swiftel in its December 2003 issue, we obtained the annualised volatility of 88% for Swiftel.

Interest rate represents the 3-year government bond rate as at 26 February 2004.

The value of the Swiftel listed options post-Consolidation will be **\$0.0833** each based on the Technical Approach using BSPM and BOPM. Under the Options Offer two (2) listed options will be cancelled in consideration for one Swiftel ordinary share meaning the value of the consideration under this cross-check will be **\$0.1666** per ordinary share.

## 7.5 Value of Assets to be Acquired

Based on the value of the listed options calculated above the value of the assets to be acquired, will be in the range of \$2.05 million and \$4.18 million, with a preferred mid-point of \$4.0 million.

|   | Low                | High               |
|---|--------------------|--------------------|
| Number of listed options to be acquired       | 18,955,075         | 38,676,006         |
| Value of a listed option                      | \$0.108            | \$0.108            |
| <b>Value of listed options to be acquired</b> | <b>\$2,047,148</b> | <b>\$4,177,009</b> |

## **8 Evaluation of assets to be acquired – People Telecom Transaction**

### **8.1 Purpose**

Under the Heads of Agreement between Swiftel and People Telecom, Swiftel will be acquiring 100% of the share capital of People Telecom in consideration for between 194.75 million and 204.31 million Swiftel ordinary shares.

### **8.2 Valuation of People Telecom**

In considering the value of People Telecom shares as part of our consideration of the fairness and reasonableness of the Transaction, the following valuation approaches were considered;

- a) Capitalisation of future maintainable earnings (“CFME Approach”) – which capitalises the level of future maintainable earnings of the business using a capitalisation multiple as a basis for determining the value of the business. This is then added to the realisable value of any surplus assets to arrive at the value of the company;
- b) Discounted Cash Flow method (“DCF Approach”) – which discounts all future cash flows of the business to present value as a basis for determining the value of the company;
- c) Asset value approach (“Asset Approach”) – which involves either the determination of net realisable value of the assets of the company assuming an orderly realisation of those assets, less reasonable sale costs, or the calculation of total assets of the company, less total liabilities and any intangible assets as a basis for determining the value of the company; and
- d) Market comparison (“Market Approach”) – which uses prices from recent sales of the assets, or shares in the asset as a guide to current value. This approach includes the use of current share prices for companies that are listed on the ASX.

### **8.3 Valuation methodology selected in valuing People Telecom**

We consider CFME Approach to be the most appropriate valuation methodology to value the shares of People Telecom. This approach relies on the comparison with other similar listed companies to obtain a suitable multiple for People Telecom. These multiples are implied by the publicly quoted share prices of these listed companies, adjusted for the individual characteristics of each company. The CFME Approach was considered to be most appropriate for the valuation of People Telecom given the established on-going nature of the business, as the business is generally profitable with recurring revenue streams. As such, we have calculated an appropriate maintainable earnings level and applied the appropriate Price Earnings multiple.

The Market Approach is not an appropriate method in valuing the shares of People Telecom as the Company does not have publicly quoted prices for its shares, which reflect their fair market values, nor are there any recent share issues which may be used as a proxy for market value.

The DCF Approach requires cash flow forecasts of the Company in order to be able to discount these cash flows to present value. Cash flow forecasts, if any, are likely to be based on hypothetical assumptions due to the lack of track record of People Telecom's business. Hence, it would not have been an appropriate methodology in establishing the Company's value due to the significant uncertainty in the projected cash flows and the substantial number of contingent events that need to take place for People Telecom to realise its projections. Therefore, the DCF Approach was not considered to be an appropriate approach to apply in this situation.

The Asset Approach is generally adopted when an entity being valued has ceased to be a going concern, does not have a strong profit history, for largely capital intensive businesses, or when no other approaches are appropriate. A commonly used asset-based approach is the NTA Approach and was not applied in this situation.

#### **8.4 Valuation of People Telecom Shares**

To determine the most appropriate Earnings multiple we researched and analysed a number of ASX listed telecommunications companies operating in the Telecommunications Services Industry. The analysis focused on the individual characteristics of the listed companies seeking similar business activities and operations.

### 8.4.1 Earnings Multiple Estimates

We selected a sample of 8 listed companies we considered to be most comparable to the People Telecom, which are listed below.

| <b>Comparable P/E Multiple Analysis (18 April 2004)</b> |  |                                |                                      |                  |
|---|--|--------------------------------|--------------------------------------|------------------|
| <b>Company name</b>                                     | <b>Main Activities</b>   | <b>Shares on Issue (000's)</b> | <b>Market Capitalisation (\$000)</b> | <b>P/E Ratio</b> |
| <b>B Digital Limited</b>                                | Mobile phone services and GSM services via Optus contract  | 588,025                        | 164,647                              | 16.47            |
| <b>iiNet Limited</b>                                    | Internet and ADSL services, licensed carrier offering hosting and wholesale telephony and data services  | 79,433                         | 196,199                              | 25.2             |
| <b>Singapore Telecommunications Limited</b>             | Diversified telecommunications carrier which owns 100% Optus, mobile, long distance, internet, etc. and owns 100% Singtel mobile and Singnet and ISP         | 6,766,367                      | 12,450,116                           | 17.08            |
| <b>Sirus Telecommunications Limited</b>                 | Provision of tailored communications solutions including billing systems, business services and facilities management  | 45,908                         | 13,772                               | 42.86            |
| <b>SP Telecommunications Limited</b>                    | Full service telecommunications business providing wholesale ADSL and retail telecommunications services to the residential and business markets             | 185,242                        | 268,601                              | 33.72            |
| <b>Telecom NZ Limited</b>                               | Diversified telecommunications carrier providing voice (fixed line and mobile), internet and data services along with directory assistance                   | 1,931,556                      | 9,522,000                            | 10.02            |
| <b>Telstra Corporation Limited</b>                      | Diversified telecommunications carrier providing voice (fixed line and mobile) internet, data, infrastructure, network, corporate centre and pay TV services | 6,182,364                      | 28,006,100                           | 12.83            |
| <b>Uecomm Limited</b>                                   | Broadband and data services via fibre optic network, used for corporate network and network management services  | 509,243                        | 170,596                              | 16.5             |

We consider the Price/Earnings ("P/E") multiple as the most appropriate Earnings Multiple.

Based on the P/E multiples of the comparable companies, we estimate the base P/E multiple of People Telecom before adjustment to be in the range of;

| Estimate     | Low | High |
|--------------|-----|------|
| P/E Multiple | 12  | 16   |

## 8.5 Discounts/Premiums

Given the selected comparable companies are listed, with variations in their market capitalisation and operations, we have made adjustments to the estimated base P/E multiples for liquidity, marketability, size and diversification.

A discount has also been applied to the estimated multiples on the basis People Telecom is a private company with no readily available secondary market, where the shares are closely held and not publicly traded.

A number of the comparable companies are also significantly larger and are generally more diversified than People Telecom, hence a further discount has been applied to the P/E multiple.

It should be noted that no adjustment has been included for a controlling interest in People Telecom, as we believe there will be no material impact to the current position with no shareholder having absolute control.

## 8.6 Adjusted Multiples

Based on the analysis above, the estimated multiples were discounted to arrive at the adjusted earnings multiple range as follows;

| Estimate     | Low | High |
|--------------|-----|------|
| P/E Multiple | 7   | 9    |

The adjusted multiple is then applied to our estimate of future maintainable earnings to obtain a range of values for the shares of People Telecom.

## 8.7 Future Maintainable Earnings ('FME')

To calculate the People Telecom earnings on an Operating Profit after tax basis, we considered the historic performance and conducted a limited financial analysis of these results.

We obtained budgets for the years ended 30 June 2004 and 30 June 2005 to calculate forecast Net Profit after Tax and performed limited financial analysis and review of the 31 December 2003 and 29 February 2004 unaudited results.

To calculate People Telecom's level of maintainable earnings, the Net Profit after Tax results determined above were adjusted for any non-recurring items based on our review.

### 8.8 Net Profit after Tax ("NPAT")

A summary of the historical and forecast NPAT for People Telecom is provided below.

| Item                 | 30/06/2005<br>Forecast<br>000's | 30/06/2004<br>Forecast<br>000's | 30/06/2003<br>Audited 000's | 30/06/2002<br>Audited 000's |
|----------------------|---------------------------------|---------------------------------|-----------------------------|-----------------------------|
| Net Profit after Tax | 4,492                           | 2,021                           | 150                         | (7,067)                     |

In the case of the People Telecom business, we do not believe that historical earnings are a guide to future maintainable earnings because of the growth path that the company has been engaged in. Accordingly, future maintainable earnings are best estimated by looking to the forecasts and considering them in light of the track record of the company in achieving similar levels of growth historically.

In addition, the reasonableness of the best estimate assumptions underlying the forecasts need to be considered.

Based on our review of the forecasts for the 2005 year and discussions with the management of People Telecom we understand that company expects to achieve an NPAT figure of approximately \$4.5 million for the 2005 year.

Based on these calculations and our discussions and analysis, we believe the level of maintainable earnings on a NPAT for the purposes of this Transaction and Report to be \$4.5 million per annum.

### 8.9 Value of Assets to be Acquired

Based on the level of maintainable earnings on a NPAT basis and the P/E multiple calculated above, the value of People Telecom, being the assets to be acquired, will be in the range of \$31.5 million and \$40.5 million, with a preferred mid-point of \$36 million.

|                         | NPAT<br>\$000 | Valuation (Low)<br>\$000 | Valuation (High)<br>\$000 |
|-------------------------|---------------|--------------------------|---------------------------|
| Value of People Telecom | 4,500         | 31,500                   | 40,500                    |

Based on the number of outstanding shares of People Telecom the value per share is as follows:

| Value of People Telecom | # of Outstanding<br>shares | Low    | High   |
|-------------------------|----------------------------|--------|--------|
|                         | 12,886,582                 | \$2.44 | \$3.14 |

## 9 Comparison of offer consideration and assets to be acquired

### 9.1 Options Offer Transaction

Based on the value of the offer consideration under the Options Offer Transaction calculated previously in Section 7, we note that the value of the offer consideration exceeds the value of the assets to be acquired.

|  | <b>Low<br/>\$000</b> | <b>High<br/>\$000</b> |
|--|----------------------|-----------------------|
| Value of offer consideration   | 2,036                | 3,747                 |
| Value of assets to be acquired   | 2,047                | 4,177                 |
| <b>Offer consideration in excess of / (less than) the value of assets to be acquired</b> | <b>(11)</b>          | <b>(430)</b>          |

Accordingly the value of the assets being acquired exceeds the offer consideration by between \$11,000 and \$430,000.

### 9.2 People Telecom Transaction

Based on the value of offer consideration calculated previously in Section 8, we note that the value of the offer consideration exceeds the value of the assets to be acquired.

|  | <b>Low<br/>\$000</b> | <b>High<br/>\$000</b> |
|--|----------------------|-----------------------|
| Value of offer consideration   | 37,723               | 43,907                |
| Value of assets to be acquired   | 31,500               | 40,500                |
| <b>Offer consideration in excess of / (less than) the value of assets to be acquired</b> | <b>6,223</b>         | <b>3,407</b>          |

Accordingly the value of the offer consideration exceeds the value of the assets being acquired by between \$3.4 million and \$6.2 million.

We note however that our preferred midpoint valuation for People Telecom is \$36 million. In addition, because the value of the offer consideration, being the number of Swiftel shares issued, is influenced by the take-up in the Options Offer transaction and is not capable of being accurately identified at this time, we also note that the likely value of the offer consideration will fall somewhere between the \$37.7 million and \$43.9 million range.

## 10 Other considerations

Having compared the offer consideration with the assets to be acquired, we then evaluated other considerations, including the advantages and disadvantages of the Transaction before concluding whether the Transaction on the whole is fair and reasonable.

### 10.1 Advantages of the Transaction

The advantages of the Transaction to Swiftel shareholders are as follows;

- Swiftel will become a full telecommunications provider of both data and voice products. Swiftel has enjoyed consistent growth since its entry to the market, however, to enable Swiftel to capture further market share we understand that it is necessary to look to become a full service provider. We understand that the Swiftel will become around the 7<sup>th</sup> largest full service telecommunications group in Australia as a result of the Transaction.
- Swiftel will be acquiring a business to grow and minimise ongoing working capital requirements. Swiftel would require significant capital and lead time to develop/acquire the systems and capabilities to a level that will be achieved from the acquisition of People Telecom.
- We understand Swiftel will acquire systems and capabilities to service a growing customer base and improve management of customer relationships. Swiftel currently outsources its billing capabilities, which limits its ability to have complete control over the management of customer relationships. Swiftel will acquire an operational back office, billing and service applications system that will allow management and maintenance of their own network infrastructure.
- Swiftel will have an increased customer base. This will provide the opportunity to cross – sell the data and voice products and provide Swiftel with a new customer base of approximately 10,000 to offer its data products to.
- Increased knowledge and experience on the Board. The Transaction will bring new people with extensive industry experience to the Board of Swiftel.
- The Transaction enables Swiftel to fund growth in the business through the issue of shares. The consideration for the Transaction is the issue of shares in Swiftel and nil cash consideration.
- We understand that the management of Swiftel and People Telecom have been working together for approximately 12 months exploring opportunities to grow their businesses. This is an important consideration to the cultural synergy of the merged entity and demonstrates their commitment to the growth and success of Swiftel.

## **10.2 Disadvantages of the Transaction**

The disadvantages of the Transaction to Swiftel shareholders are as follows;

- The issue of shares to People Telecom will have the impact of diluting the existing shareholdings of the existing Swiftel shareholders.
- The scale of Swiftel's activities will change given that it will become a larger business operating with additional products. This may not suit the desired risk profile of the shareholders.
- The offer provides that the post – consolidation listed options will be converted into ordinary shares for nil consideration, which removes the ability of Swiftel to increase its cash reserves.
- As noted in above, the shareholding of existing Swiftel shareholders will be diluted significantly to between 30.7% and 34% as a result of the issue of shares under the People Telecom Transaction.

### 10.3 Impact on proforma net asset position

The table below shows the proforma net asset position of Swiftel as at 31 December 2003 before and after the proposed Transaction.

| Statement of Financial Position                | Notes | Pre-Transaction   | Post Transaction   |
|--|-------|-------------------|--------------------|
| <b>CURRENT ASSETS</b>                          |       | <b>\$</b>         | <b>\$</b>          |
| Cash assets                                    |       | 1,818,796         | 4,321,872          |
| Receivables                                    |       | 2,152,358         | 9,493,648          |
| Inventories                                    |       | 7,184             | 7,184              |
| Other  |       | 713,806           | 1,740,857          |
|  |       | <b>4,692,144</b>  | <b>15,563,561</b>  |
| <b>NON-CURRENT ASSETS</b>                      |       |                   |                    |
| Plant and Equipment                            |       | 3,827,191         | 3,939,193          |
| Intangibles                                    |       | -                 | 34,586,689         |
| Other  |       | -                 | 1,803,716          |
|  |       | <b>3,827,191</b>  | <b>40,329,598</b>  |
| <b>TOTAL ASSETS</b>                            |       | <b>8,519,335</b>  | <b>55,893,159</b>  |
| <b>CURRENT LIABILITIES</b>                     |       |                   |                    |
| Payables                                       |       | 2,875,740         | 13,237,019         |
| Interest Bearing Liabilities                   |       | 433,795           | 433,795            |
| Provisions                                     |       | 167,215           | 584,740            |
| Other  |       | 1,024,194         | 1,204,194          |
|  |       | <b>4,500,944</b>  | <b>15,459,748</b>  |
| <b>NON-CURRENT LIABILITIES</b>                 |       |                   |                    |
| Interest Bearing Liabilities                   |       | 270,599           | 270,599            |
| Other  |       | -                 | 1,595,020          |
|  |       | <b>270,599</b>    | <b>1,865,619</b>   |
| <b>TOTAL LIABILITIES</b>                       |       | <b>4,771,543</b>  | <b>17,325,367</b>  |
| <b>NET ASSETS</b>                              |       | <b>3,747,792</b>  | <b>38,567,792</b>  |
| Number of shares on issue (post consolidation) | a     | <b>80,987,631</b> | <b>295,074,885</b> |
| Net Asset Value per share (cents)              | b     | <b>4.63</b>       | <b>13.07</b>       |

Notes:

- a) The number of shares on issue is calculated on a post one-for-two share consolidation basis and assumes 100% acceptance of the Options Offer  
b) Net asset value per share is calculated on a post one-for-two share consolidation basis

The net assets of Swiftel are expected to increase from \$3.75 million to \$38.57 million as a result of the proposed Transaction. This equates to an increase in its value per share from 4.63 cents to 13.07 cents. This increase in net asset value per share is a benefit to non-associated shareholders of Swiftel.

## 11 Conclusion

### 11.1 Summary of our Considerations

#### 11.1.1 Options Offer Transaction

In forming our opinion as to whether the issue of Swiftel shares to Swiftel listed option holders under the Options Offer Transaction is fair and reasonable to the non-associated shareholders of Swiftel, we have considered the following key issues;

- The relative value of the Swiftel shares offered under the Options Offer Transaction and the listed options to be cancelled; and
- The likely implications to Swiftel if the Options Offer Transaction does not proceed.

#### 11.1.2 People Telecom Transaction

In forming our opinion as to whether the issue of Swiftel shares to People Telecom shareholders under the People Telecom Transaction is fair and reasonable to the non-associated shareholders of Swiftel, we have considered the following key issues;

- The relative value of the Swiftel shares offered under the People Telecom Transaction and the People Telecom shares to be acquired;
- The strategic rationale for the proposed Transaction and the expected impact of the People Telecom Transaction on Swiftel's strategic, financial and operating position;
- The synergies that Swiftel expects to realise from the proposed Transaction, and other flow-on effects of the proposed Transaction;
- The extent of any premium for control being received by Swiftel; and
- The possible alternatives available to Swiftel if the Transaction does not proceed.

Whilst we have been able to arrive at a valuation for Swiftel, the **number** of Swiftel shares to be issued under the People Telecom Transaction is influenced by the number of Swiftel shares to be issued under the Options Offer Transaction. Similarly, the **value** of the Swiftel shares to be issued under the People Telecom Transaction is also influenced by the number of Swiftel shares to be issued under the Options Offer Transaction.

It has been more difficult to assess the value of the People Telecom shares, which represent the consideration for the Swiftel shares being issued. In this circumstance we have also considered comparable transaction data, where available, to assist us in assessing the fairness of the offer consideration (Swiftel shares) when compared with the value of the assets under offer (People Telecom shares).

## 11.2 Our Opinion

### 11.2.1 Options Offer Transaction

**In view of all our considerations, we are of the opinion that the Options Offer Transaction on the whole is considered to be fair and reasonable to the shareholders of Swiftel.**

We consider that the benefits of the Options Offer Transaction outweigh the disadvantages of the Options Offer Transaction. The major matters, which deal with the advantages and disadvantages of the Options Offer Transaction are set out below.

- Under the terms of the Options Offer Transaction, Swiftel will issue between 9.48 million and 19.33 million shares to the listed option holders at a notional price of \$0.20 per share on a post-consolidation basis.
- The Market Approach was used as the basis for valuing the shares and listed options of Swiftel using the 6 month weighted average share price and option price on 16 April 2004.
- The value of the consideration being paid by Swiftel for the acquisition of the Swiftel listed options under the Options Offer Transaction is represented by the value of the shares to be issued and is between \$2.05 million and \$3.76 million, which is less than the range of values of the listed options of Swiftel being cancelled of between \$2.05 million and \$4.18 million. To summarise, the offer consideration appears to be at least equal to or less than the value of the assets under offer.
- If the Options Offer Transaction does not proceed, we understand that the People Telecom Transaction will also not proceed. Our opinion on the People Telecom Transaction is outlined in 1.4.2 below and detailed elsewhere in this report and is considered to be fair and reasonable to the shareholders of Swiftel. Accordingly, should the Options Offer Transaction not proceed, Swiftel will not be able to proceed with the People Telecom Transaction.
- We believe that the acquisition of People Telecom will strengthen Swiftel's business going forward, providing diversification and potential increased market share. Should this not occur, Swiftel will need to consider alternative strategies to both pursue and fund growth and diversification. We are not aware of any alternatives currently available to Swiftel.

### 11.2.2 People Telecom Transaction

**In view of all our considerations, we are of the opinion that the People Telecom Transaction on the whole is considered to be fair and reasonable to the shareholders of Swiftel.**

We consider that the benefits of the People Telecom Transaction outweigh the disadvantages of the People Telecom Transaction. The major matters, which deal with the advantages and disadvantages of the Transaction are set out below.

- Swiftel is still in a formative stage of its business development, particularly with its high volume DSL product. Swiftel has previously made losses, however the company is rapidly approaching break even and an improving outlook for 2005. The short-term outlook for significant growth for the Company will however continue to be limited by virtue of its current size and narrow product offering, relative to other market participants.
- People Telecom is currently in a profit making position, with forecast results for 2004 showing a full year profit. The Directors have also forecast a stronger result in 2005 with growth in revenue and margins driving both increased profitability and cashflow. Relative to Swiftel, People Telecom is a more mature business experiencing consistent growth in a largely commercial customer base.
- The combination of the two businesses will provide the opportunity for synergistic benefits whereby Swiftel's largely data-based products and People Telecom's largely voice-based products should provide cross-selling opportunities that will yield additional revenue with relatively low marginal operating costs.
- The combination of the two businesses will also provide the opportunity to leverage greater whole of business discounts to the merged entity from the major suppliers. Significantly for Swiftel, these discounts are currently not available to Swiftel based on its current level of activity.
- In addition, the cashflow generated by the People Telecom business will be available to assist the earlier-stage profile of the Swiftel business, which is not forecast to be materially cashflow positive until 2005. This will assist in funding the growth of the Swiftel business and may remove the need to raise additional external funding.
- Whilst no forecasts have been prepared for the merged group, based on the information we have been provided with, the Transaction should result in a minor earnings per share fall for Swiftel shareholders than if the Transaction were not to proceed.
- The voice-based fixed line and mobile business of People Telecom also provides diversification for Swiftel away from its largely data-based ADSL ISP business.
- The result of the proposed Transaction should provide the merged business with additional scale and diversity and will rate the business in the top 10 market participants in this sector in Australia. This development should also assist the merged business to take advantage of likely future industry consolidation opportunities and also make the Company more attractive to the investment community if it is able to continue to deliver profitable growth in sales across a wider product range.
- Under the terms of the People Telecom Transaction, Swiftel will issue between 194.75 million and 204.31 million shares to the shareholders of People Telecom at a notional price of \$0.20 per share on a post-consolidation basis.

- Assuming minimum acceptance of the Options Offer Transaction, following the issue of shares as consideration for the acquisition of 100% of People Telecom under the People Telecom Transaction, the maximum potential dilution on the shareholdings of existing Swiftel shareholders is a reduction to 30.7% of existing shareholdings.
- However should there be 100% acceptance of the Options Offer Transaction, following the issue of shares as consideration for the acquisition of 100% of People Telecom under the People Telecom Transaction, the maximum potential dilution on the shareholdings of existing Swiftel shareholders is a reduction to 34.0% of existing shareholdings.
- Of course, the actual level of acceptance will fall somewhere between these two extremes, resulting in a potential dilution on the shareholdings of existing Swiftel shareholders to between 30.7% and 34.0% of existing shareholdings.
- On a fully diluted basis, following the exercise of all outstanding options (both listed and unlisted), existing Swiftel shareholders will hold between 35% and 36.0% of the issued capital of the Company.
- The Market Approach was used as the basis for valuing the shares of Swiftel using the 6 month weighted average share price or closing price on 16 April 2004.
- The value of the consideration being paid by Swiftel for the acquisition of People Telecom under the People Telecom Transaction is represented by the value of the shares to be issued and is between \$37.72 million and \$43.91 million.
- The Earnings Approach was used as a basis for valuing the shares of People Telecom using a price earnings multiple and is between \$31.5 million and \$40.5 million with a preferred mid-point of \$36 million.
- The value of the consideration being paid for People Telecom exceeds the value of the assets being acquired by between \$3.4 million and \$6.2 million.
- Following the Transaction, the net asset value per share of Swiftel based on its proforma statement of financial position as at 31 December 2003 is anticipated to increase from 4.63 cents to 12.37 cents per share.
- The Swiftel Directors have reviewed and conducted research into numerous investment proposals and are of the opinion that the proposed merger with People Telecom meet the board's criteria and represents a significant opportunity to create value for all Swiftel shareholders.
- The acquisition of People Telecom will strengthen Swiftel's business going forward providing increased diversification and potential increased market share.
- There are significant risks inherent in achieving success from the merger, which may not suit the desired risk profile of the existing shareholders of Swiftel.

## 12 Sources of Information

In preparing this Report, we relied on the following information provided to us:

- Draft Notice of Meeting and Explanatory Memorandum dated 12 March 2004;
- Heads of Agreement between Swiftel and People Telecom to acquire all the issued capital in People Telecom dated 12 March 2004;
- Shareholders' register for Swiftel as at 29 March 2004;
- Shareholders' register for People Telecom as at 30 April 2004;
- Audited financial accounts of Swiftel for the year ended 30 June 2003;
- Reviewed accounts of Swiftel for the half year ended 31 December 2003;
- Audited financial accounts of People Telecom for the year ended 30 June 2003;
- Unaudited financial accounts of People Telecom for the half year ended 31 December 2003;
- Proforma consolidated statement of financial position for Swiftel taking into account the proposed acquisition of People Telecom and the \$1.5 million capital raising (to be confirmed);
- ASX announcements for Swiftel;
- Correspondences including electronic mail, telephone calls and meetings with Swiftel and its legal consultants Steinepreis Paganin; and
- Other sources of publicly available information such as IRESS, ASX, ASIC, Internet, company websites, newspaper publications etc.

## **13 Disclosure of Interests**

PKF Corporate Advisory is entitled to receive a fee of approximately \$50,000 including Goods and Services Tax for the preparation of this Report.

PKF Corporate Advisory is a wholly owned company of PKF Chartered Accountants, Western Australian Partnership ("PKF").

Neither PKF, PKF Corporate Advisory nor the signatory of this Report, Mr Ian Olson, has had within the past two years any relationship with the Company, other than as disclosed above.

## **14 Qualifications**

PKF Corporate Advisory has extensive experience in the provision of corporate financial advice, particularly in respect of independent expert's reports and valuations.

PKF Corporate Advisory holds an Investment Advisers Licence issued by ASIC for providing expert's reports for the Listing Rules of the ASX or the Corporations Act.

The person specifically involved in preparing this Report, Mr Ian Olson, is a partner of PKF and a director of PKF Corporate Advisory is experienced in the area of providing financial and valuation advice.

## **15 Consents**

This Report has been prepared under the requirements of Section 611 of the Corporations Act and will be distributed to Swiftel shareholders together with the Notice of GM and an Explanatory Statement to assist non-associated shareholders of Swiftel in voting at the Company's GM.

PKF Corporate Advisory hereby consents to this Report being accompanying the Notice of General Meeting and Explanatory Statement in the form and content in which it is included. Apart from such use, neither the whole, nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement or letter without the prior written consent of PKF Corporate Advisory.

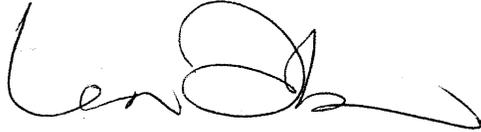
The statements and opinions contained in the Report are so contained in good faith and in the belief that such statements and opinions are not false or misleading. In preparing this Report, PKF Corporate Advisory has considered information that it believes to be reliable and accurate, and is based on the assumptions stated and on information provided by management.

The terms of our engagement are such that we have no obligations to update this Report because of events occurring subsequent to the date of this Report. PKF Corporate Advisory believes that this Report and the opinions expressed in this Report are

accurate. PKF Corporate Advisory has no reason to believe that any material facts have been withheld from it.

Yours sincerely

**PKF Corporate Advisory Services (WA) Pty Ltd**

A handwritten signature in black ink, appearing to read 'Ian P Olson', with a stylized, cursive script.

**IAN P OLSON**

Director

Authorised Representative under Proper Authority